



## Success Stories:

# What Drives Consumer Borrowing for Energy Efficiency?

Peter Krajsa, Chairman and CEO  
AFC First Financial Corp.

December 3, 2009

[pkrajsa@afcfirst.com](mailto:pkrajsa@afcfirst.com)

(610) 433-7486

# AFC First – A National Leader In Energy Efficiency Lending

- **AFC First Financial Corporation is an experienced specialty energy efficiency lender and the provider of the EnergyLoan® program..**
  - Founded in 1947 in Allentown, PA. AFC has processed over 50,000 energy efficiency loan applications.
  - Retail energy lending to consumer has been primary business since 1999.
  - AFC First is one of only three Fannie Mae approved Energy Lenders in the nation.
  - Currently lending in 20 states with over 2,000 Approved Contractors, Manufacturer, Utility and State and Municipal Partners
  - National lending capabilities with NOVA/Great Bear Bank platform



# AFC First – A National Leader In Energy Efficiency Lending

- **AFC First Financial's key energy efficiency financing services include:**
  - Contractor Recruitment, Screening and Training
  - Loan Application Intake and Processing
  - Loan Servicing, Off and On Bill
  - Payments to Approved Contractors including Verification of Satisfactory Completion
  - Installed Equipment and Energy Savings tracking (eg PSD's Green Energy Compass)



# AFC First – A National Leader In Energy Efficiency Lending

- Co-Creator and Administrator of **Pennsylvania's Keystone HELP Energy Efficiency Loan and Rebate Program** with the Pennsylvania Treasury Department and PHFA and DEP, one of the nation's most successful programs
- Co-Creator and Administrator of **Connecticut's innovative state solar leasing program, CT Solar Lease**, the first rate payer funded residential solar leasing program in U.S.
- AFC First also operates consumer financing programs for **National Grid, Duke Energy, Progress Energy** and others
- **Focus is on simple, contractor-driven residential energy efficiency financing programs including training, marketing support, education and web integration.**



# The Facts About Financing

- In the current “Perfect Storm” of Energy Crisis and Credit Contraction, consumers more than ever need simple financing options to make energy improvements
- 70% of all Home Improvements up to \$15,000 are financed in one way or another, 90% of improvements greater than \$15,000 are financed
- Most Consumers are motivated by necessity when it comes to energy efficiency (the “Reactive” consumer who needs to replace a broken furnace) – this is 90% of the energy efficiency market and can’t be ignored
- “Proactive” improvements are growing, but contractor and auditor base most grow faster to support this market
- Successful programs address both Reactive and Proactive Consumer
- Keep it simple for contractor and consumer – the goal is work performed and energy savings, not the number of audits conducted

# What Has Worked and Where the Jury is Still Out

- **Simple, state funded monthly payment contractor driven programs have been the easiest to implement and are having the greatest success (NYSERDA, PA's Keystone HELP, CT Solar Leasing)**
- **“On-Bill” utility programs are a hot topic, but no real track record. Concerns: potentially increased delinquency through utility loan servicing, who takes the credit risk? etc.**
- **Real estate tax model, while a good concept, is highly localized and can only address a small part of the market (“Proactive” consumer only)**
- **Unless changed, Davis Bacon requirement may impede any ARRA funded state loan programs as small business and minority contractors (who do most of the business) may be excluded**

# A Successful Consumer Energy Efficiency Program....

- **Assists consumers in making better decisions regarding the energy efficiency of their home improvements** by providing affordable monthly payment options.
- **Recruits and trains contractors on how to better utilize special financing and monthly payment plans** to increase both their closing rates and market penetration for more energy efficient home improvements.
- **Utilizes state-of-the-art technology to provide maximum efficiency and customer service to both consumers and contractors** in loan origination, administration and loan servicing.
- **Provides consumers with efficient, knowledgeable and exceptional personal service** as it relates to the financing of their energy efficient home improvements.
- **Provides customers with a “special” financing program** that encourages them to choose higher efficiency improvements over lower efficiency items.

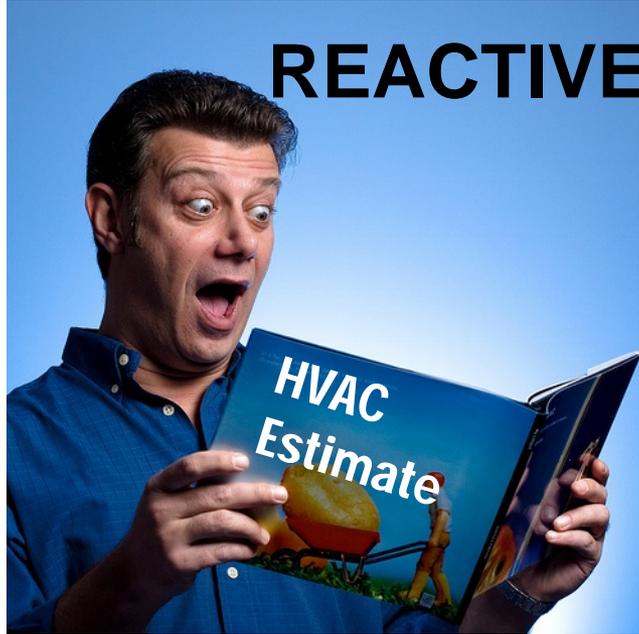


# How Do Americans Pay to Improve Their Homes' Energy Efficiency?



# Two Types of Energy Efficiency Customers

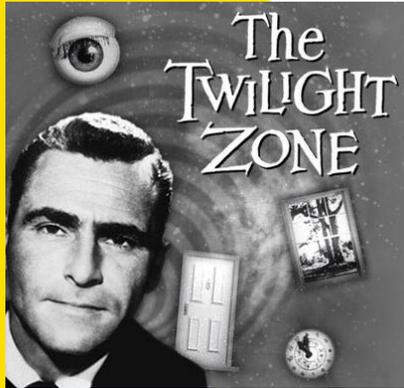
**REACTIVE**



**PROACTIVE**



# REACTIVE Consumer - Welcome to the “Twilight Zone”



- Typical “urgent” HVAC or home repair installations (\$3,000 to \$15,000) are the consumer’s financing “twilight zone” - too big for a credit card, too small for a home equity loan.
- The vast majority of energy efficiency improvements
- Customer doesn’t want a lien on their home
- Time sensitive – consumer needs work done ASAP
- Contractor-Driven
- “Come-on” or “Teaser” (0% for 6 months type) Financing is not the answer for a major capital purchase and can hurt contractor credibility
- Borrower wants longer term or lower rate than he can get from bank
- Solution: Unsecured point of purchase loan programs with (lower rates based on simple product qualification – ENERGY STAR)

# PROACTIVE Consumer - The “Thinker”



- **“Whole house” improvements up to \$15,000 may be applicable for a streamlined on-bill finance program because they can be addressed with an unsecured loan**
- **More project driven, less time sensitive**
- **More customer thought, engagement and foresight**
- **Loans above \$15,000 typically involve home equity financing which may be too cumbersome for an on-bill finance program**
- **Solution: “Home Performance” model with Energy Audit, recommendations and lower rate than “Reactive” financing**

# Program Should Not Exclude, But Rather Incent

- Consider “Tiered” Financing Approach which accommodates both Reactive and Proactive Consumers
- Don’t exclude the consumer who wants to install an ENERGY STAR or high efficiency improvements but doesn’t have time to go through the whole audit protocol
- But...provide lower interest rate to the consumer who will do the “Whole house” improvement program
- Contractors have to “buy in” to the ease of the program and can’t be put off by complexity – need to accommodate their customers
- Use simple, consumer recognized national standards such as ENERGY STAR for equipment standards – no need to “reinvent the wheel” or confuse the market



# CASE STUDY - Pennsylvania's Keystone HELP®

- **AFC First** started Keystone HELP® with the **West Penn Power (Allegheny Power) Sustainable Energy Fund** in 2005 as an enhanced version of AFC First's EnergyLoan program for higher efficiency improvements.
- The **Pennsylvania Treasury Department** helped expand Keystone HELP statewide in 2006 with a commitment of \$20 million in lower cost funding, which resulted in lower rates to consumers on unsecured loans of up to \$10,000.
- A great success with close to 5,000 loans and nearly \$30 million funded in first three years.
- Complete statewide reach with loans made in 67 counties and a network of 1,500 AFC First/Keystone HELP Approved Contractors.

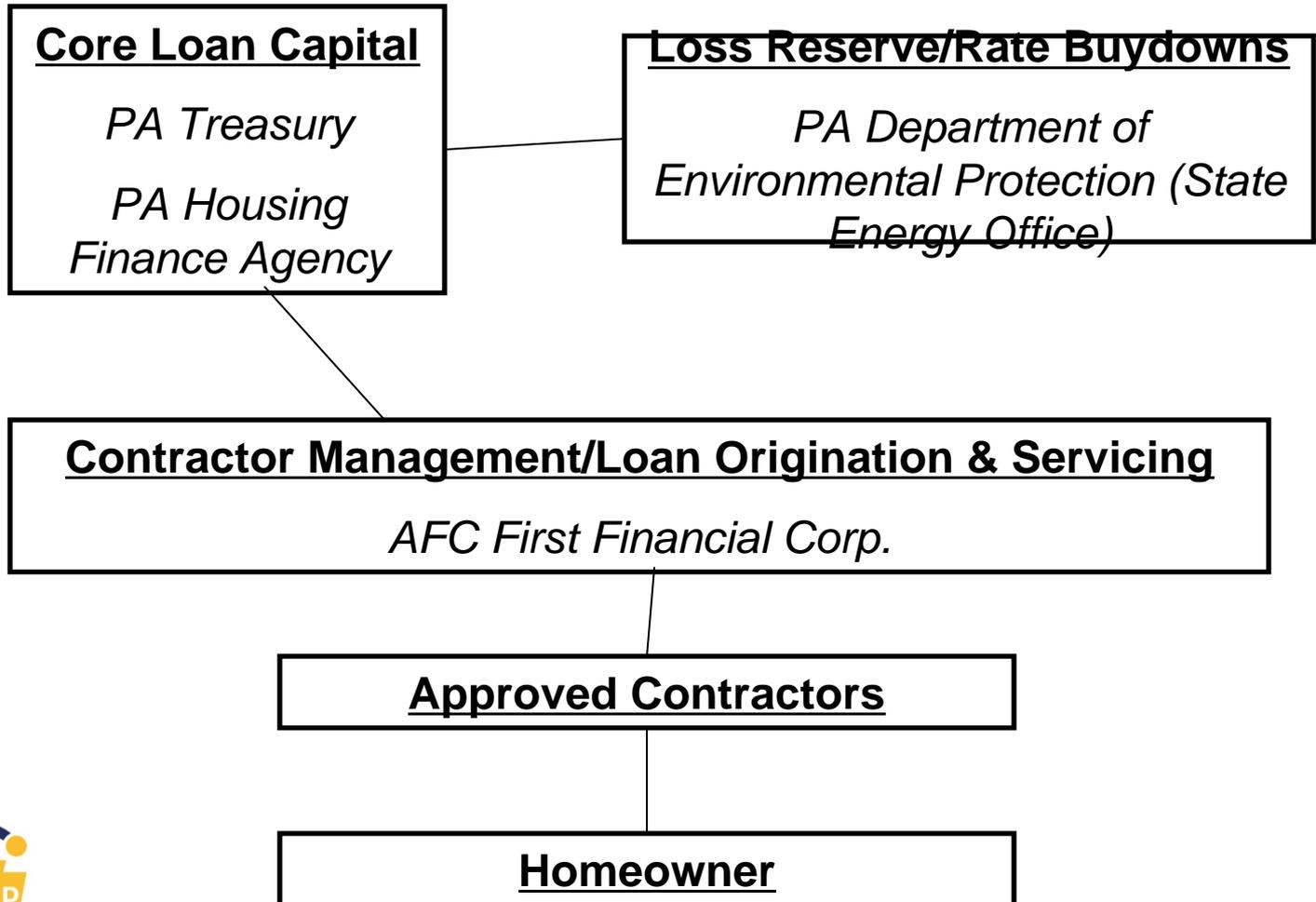


# CASE STUDY - Pennsylvania's Keystone HELP<sup>®</sup>

- Expanded in late 2007 in cooperation with the **Pennsylvania Housing Finance Agency** with the creation of the Keystone HELP “R&R” Energy Loan for larger amounts, up to \$35,000.
- As a result of the Alternative Energy Investment Fund Act, the **Department of Environmental Protection** has committed funds to expand the loan program, reduce interest rates and create a new rebate program for high efficiency and whole house improvements.
- Pennsylvania Treasury Department and Pennsylvania Housing Finance Agency continue to provide the core “recycling” loan capital.
- AFC First administers the program providing contractor management and training and all loan and rebate processing and servicing.



# CASE STUDY - Pennsylvania's Keystone HELP<sup>®</sup>



powered by AFCFIRST

PENNSYLVANIA DEPARTMENT OF ENVIRONMENTAL PROTECTION  
PENNSYLVANIA TREASURY DEPARTMENT  
PENNSYLVANIA HOUSING FINANCE AGENCY

# Keystone HELP® Addresses Both Reactive and Proactive

## FOR THE REACTIVE ENERGY IMPROVEMENT

- Low Rate Unsecured Loan - 6.99, 10 Year Term to \$15,000 for ENERGY STAR Improvements
- Lower Rate Unsecured Loan – 5.99, 10 Year Term to \$15,000 for Advanced Performance Improvements

## FOR THE PROACTIVE ENERGY IMPROVEMENT

- Lowest Rate Loans – 4.99% Unsecured, as low as 3.875 Secured plus a \$325 Energy Audit Credit for Whole House Improvements recommended by Certified Energy Audit that predicts a minimum 15% to 25% energy savings (depending on home's energy profile)



powered by AFIRST

PENNSYLVANIA DEPARTMENT OF ENVIRONMENTAL PROTECTION  
PENNSYLVANIA TREASURY DEPARTMENT  
PENNSYLVANIA HOUSING FINANCE AGENCY

# Three Levels of Contractors

**Approved Contractors** have been reviewed for financial and ethical stability

**Trained Contractors** are Approved Contractors who have undergone additional training on building science and “Whole House” energy improvements, and are currently authorized to perform work under all rebate and loan programs.

**Certified Contractors** are Approved Contractors who have achieved BPI (Building Performance Institute) certification or accreditation. BPI is the nationally recognized designation for building and energy professionals who have undergone rigorous training on “Whole House” energy improvements. Certified Contractors are authorized to perform work under all rebate and loan programs.



powered by **AFCFIRST**

PENNSYLVANIA DEPARTMENT OF ENVIRONMENTAL PROTECTION  
PENNSYLVANIA TREASURY DEPARTMENT  
PENNSYLVANIA HOUSING FINANCE AGENCY

# Program Delivery

The screenshot shows the homepage of the Keystone HELP program. At the top left is the logo for Keystone HELP, Home Energy Loan Program, with the text 'powered by AFCFIRST'. To the right are logos for the Pennsylvania Department of Environmental Protection, PHFA (Pennsylvania Housing Finance Agency), and the Commonwealth of Pennsylvania. A contact number '(888) AFC FIRST' is displayed. A navigation bar contains links: 'WHAT IS KEYSTONE HELP?', 'ENERGY EFFICIENCY INFORMATION', 'APPLY NOW ONLINE', 'FIND AN APPROVED CONTRACTOR OR ENERGY AUDITOR', and 'INFORMATION FOR CONTRACTORS AND ENERGY AUDITORS'. The main content area features a photo of a family and a house icon with the headline 'Pennsylvania's Special Loan and Rebate Program for Energy Efficiency Home Improvements'. Below this is a list of services: 'What's Keystone HELP?', 'Eligible Improvements', 'Find a Contractor', 'Apply Now Online', and 'Apply By Phone (888) AFC FIRST'. A section titled 'You can improve the energy efficiency of your home.....' provides details about special financing, rebates, and eligibility. It mentions that homeowners can get a low-cost loan or rebate for energy-saving improvements installed by a Keystone HELP Approved Contractor. It also notes that qualifying homeowners can get a \$325 cash energy audit credit. A 'Save Energy, Save Money' section highlights the program's goal to make energy efficiency opportunities available to Commonwealth homeowners. At the bottom, there are links to 'Download a Keystone HELP Brochure/Application' and 'Download Keystone HELP Program Guidelines'. On the right side of the page, there is a promotional banner for the 'PA Home Energy Conference 2009' held from March 18-19 at State College, PA, with a 'Get more info' link. Below the banner is a list of events: 'Learn About What's New with Keystone HELP - Free Update & Overview Webinars for Contractors' (March 6, 9, 10, 11, 12, 2009), 'Home Performance 101 Training for Keystone HELP Contractors, Presented by PA Home Energy' (State College, PA, March 19, 2009), and 'PA Home Energy Conference'.

- Accept Applications Online via program website
- Through Integrated App on Contractors Website
- Call Center and Toll Free Numbers
- Utility Link and Call Center Direction

# Improvement Eligibility?

- TIER 1 Qualifying ENERGY STAR rated Heating and Cooling
- TIER 2 Advanced Performance criteria set by program
- TIER 3 Qualifying improvements which have also included a certified energy audit
- *Entire job can be financed if at least 75% of the work is eligible improvements.*
- Contractor is paid upon verification of completion (written and verbal customer confirmation)
- Qualifying improvements can be verified with AHRI certificate



powered by AFIRST

PENNSYLVANIA DEPARTMENT OF ENVIRONMENTAL PROTECTION  
PENNSYLVANIA TREASURY DEPARTMENT  
PENNSYLVANIA HOUSING FINANCE AGENCY

# Keep it Simple



- **Don't Get Caught in Red Tape**
  - **Energy Efficiency lending programs are competing against credit cards.**
  - **Most Consumers (and Contractors) will follow the path of least resistance even if it is more costly**
  - **Accomplish your goal (helping consumers install energy efficiency improvements) without overburdening contractors or consumers with complexity**



*A National Leader in Energy Efficiency Lending*

**Peter Krajsa, Chairman and CEO**  
**John Hayes, President**  
**Jeffery Gatter, Senior VP**  
**Ken Yeager, Director of Sales**  
**Julie Unger, Director of Operations**

**(888) 232-3477**

**[afcfirst.com](http://afcfirst.com) [energyloan.net](http://energyloan.net) [keystonehelp.com](http://keystonehelp.com) [ctsolarlease.com](http://ctsolarlease.com)**